

# **Influence of Investment, Wage Level, Inflation, Economic Growth and Community Economic Affairs Toward Welfare in The District City of Riau Island Province**

**Sastram Tamami**

University doctoral student, August 17, 1945, Surabaya, Indonesia

**Ujianto**

University lecturer, August 17, 1945 Surabaya, Indonesia

**Ida Aju Brahma Ratih**

University lecturer, August 17, 1945, Surabaya, Indonesia

## **ABSTRACT**

Provincial Government of Riau Islands continues to make efforts to improve the welfare of the community, especially in the wage sector, with various policies issued, either through the Minister of Manpower Regulation. Provincial authority as an Autonomous Region, changing the enactment of the Regional Minimum Wage into Provincial Minimum Wage. This research was conducted to solve the problem of community welfare in Regency of Kepulauan Riau Province Province. Under the title Influence of Investment, Wage Level, Inflation, Economic Growth and Community Economic Affairs Toward Welfare in The District City of Riau Island Province. His unit of analysis is the all of the city districts located in Kepulauan Riau Province. The data used in this study is a combination of secondary data in the form of coherent and cross-data called data polling. Concrete data covered the period 2010-2015, while cross-data covering all urban districts in Riau Islands Province. This research uses qualitative research methods, and data processing is done with Warp Partial Least Square (Warp PLS). The results showed that: 1). Investment has a significant effect on regional economic competitiveness. 2). Investment has a significant effect on economic growth. 3). Investment has a significant effect on people's welfare. 4). Wage rate don't has an insignificant effect on regional economic competitiveness. 5). Wage rates have a significant effect on regional economic growth. 6). Wage rates have a significant effect on people's welfare. 7). Inflation has a significant effect on regional economic competitiveness. 8). Inflation don't has a significant effect on economic growth. 9). Inflation has a significant effect on people's welfare. 10). Economic growth has a significant effect on regional economic competitiveness. 11). Economic growth don't has a significant effect on the welfare of local communities. 12). The competitiveness of regional economy has a significant effect on the people's welfare.

**Keywords:** Investment, wage rate, inflation, economic competitiveness, economic growth, community welfare.

## **INTRODUCTION**

The human development index in the Riau Islands province every year increase (2011-2015), and the highest increase occurred in 2015 rose 73.75 percent. But the increase is still far from the human development index of national/international standard of at least 80%. Mean people in the Riau Islands province is far from prosperous. Based on the territory of the County the highest human development index is in Batam city follow the city of Tanjung Pinang, Anambas Islands is the smallest of the HDI (source: BPS, Province Kepri 2016). The provincial Government of Riau Islands forming a special agency-level agencies maintain the region lagging so as not happening the gap with the community on the main island (Pulau Batam). As

a form of concern for the Central Government and regions against the citizens living in the border areas are likely to increase with the use of solar power to meet electric needs of society as a whole in the outermost islands in Province of Riau Islands KEPRI is door North of Indonesia that borders Malaysia, Singapore and Vietnam. A strategic location is an advantage and regional economic competitiveness that is owned by the province Kepri. The human development index presented here in Riau Islands year 2011-2015.

**Table 1. HDI Province of Riau Islands Year 2011-2015**

Year	Human Development Index (%)
2011	67,37
2012	69,14
2013	70,22
2014	70,81
2015	73,75

**Source: BPS, Province Kepri 2016**

Based on the table above shows that the Human Development Index of Riau Islands experienced significant increases in the year 2015 of 73.75. Province Kepri capable of fostering regional economic competitiveness independently to boost economic growth as a whole. The ability to compete that includes powerful economic competitiveness in the region (Indonesia) and empowered economic competitiveness to foreign countries such as Singapore, Malaysia. In other words, the competitiveness is a complex interaction between input factors as primary factors forming the competitiveness and output, the core of the performance of the economy, namely improving the welfare of the community.

A major instrument in the implementation of decentralization should pay attention to the potential and the needs of the region. The implementation of a meaningful decentralization in managing potential area which is owned to effectively, efficiently, and accountable to support public services, so that the region has the economic competitiveness of the region. The competitiveness of the economy owned by the province Kepri, sure to be followed by a good capability in it. This is a government program the province Kepri, good government programs contained in the short-term program and long term in the development.

The development will be achieved is development that is dynamic to the progress of the region. The region must find and know the potential to be developed through innovation and productivity is high. The role of competitiveness is urgently needed, because the need for increased national and regional competitiveness is based on Indonesia's economy by the experience of facing the challenges which are quite severe, that period in 2011-2013.

Investment growth play a role is critical in economic growth, because investment is spending a considerable component and fickle, as such large changes in investment is very mempengarugi request aggregate and eventually take effect also on output and employment (Samuelson, 2004:173). The function of the Government in boosting economic growth, should always try to avoid and correct market failure in order to achieve efficiency. Based on the above background, then the researcher is interested in menleiti with the title "Influence of Investment, Wage Level, Inflation, Economic Growth and Community Economic Affairs Toward Welfare in The District City of Riau Island Province"

## LITERATURE REVIEW AND HYPOTHESIS

### Investment

Investment can be defined as the net capital stock against extra (net addition to existing capital stock) (Nanga, 2015:123) or the investment is an assistance fund which gained an industry or other areas of good that comes from overseas as well as domestic Government to finance the project, it can also be an expansion of an existing project in order to meet the needs of a growing community of life. Sukirno (2010:366-383) describes the investment is an expenditure-expenditure for the purchase of capital goods and production equipment, the goal to replace and especially adding to capital goods in the economy, subsequently used to producing goods and services in the future. Factors – factors that affect investment are: interest rates, depreciation rates, capital goods are now available and Government policy. Investment in research is derived from domestic investment (PMDN) and Foreign Investment (PMA) in various sectors of the economy each year in the area of the county town in the province of Riau Islands.

### Wage Level

Economic theoretical either capitalist or Socialist, labor wages can be specified via the three methods i.e., based on the law of the market (Intreaksi Supply and demand), the ability of a financial company and based on the cost of living. Nasotion (2016:221). The question of wages in each country between workers and entrepreneurs have never experienced agree. Therefore, the role of Government in a country very important as stabilizers in various policy especially regarding the economics of labor in completing the poverty of ignorance. From a variety of information and theory presented above it can be concluded that the level of wages is the wage rate, namely the amount of wages that is paid based on the unit of measure of employment with compensation for long working a minimum of 26 days of each month in the province Riau Islands.

### Inflation

One of monetary events of great importance and are found in most every country in the world is inflation. Infasi is the trend of the prices for the public and has continued to rise according to Budiono (2013:155). Price increase of one or two items not referred to inflation, unless the increase is widespread or result in a rise in most of the price of goods – other goods. Inflation can be caused by a variety of factors that are sometimes difficult to avoid, dinataranya policies and regulations to determine the direction of the Government in the economy often give rise to inflationary turmoil. The problems of inflation in the sense that more outsiders rather than solely an economic issue but a matter of socio-economic-political. Economics helps identify the cause or object of inflation. Inflation is generally give less favorable impact in the economy, however, as in one of the principle that the economy in the short term there is a trade off between inflation and unemployment show that inflation can reduce the level of pangangguram, or inflation can be one way to balance the economy of the country, and so on.

### Economic Growth

McConnell and Brue l. (2002:136) is the increase in GDP (Gross Domestic Product) of real in the long term, or the increase in the GDP per capita in the long term. While Samuelson and Nordhaus, (2005:556) interpret economic growth as a potential increase in the GDP of a country or the increase in national output. Economic growth according to Case (2004:631) was An increasse in the oldput of aneconomy or as an increase of real GDP per capita. Taylor (2004:397) describes An upword trend in real GDP, reflecing expantion economy over time. In other words, economic growth is the increase in the total output in the economy or a rise in real GDP per capita or pertumbuhanekonomi is a tendency that increases from the real GDP, as the development of the economic activities of kibat in long term.

Based on some of the opinions above, then it can be inferred that economic growth to contain two elements. First, economic growth related to the increase in the production of goods and services or of real income per capita. Second, economic growth has to do with time, i.e. from year to year or long term.

### **Economic Competitiveness**

Irawati *et al.* (2015:50), concluded, the level of competitiveness is the source for the development of the region and the people's welfare. In line with the functions defined in the form of local government policies, such as the central development region, and national and local activities center, the competitiveness of each city will provide ease of service and translation development of the surrounding area. The competitiveness of the regional economy, but must compete in international sizes (Halwani, 2002:422). Thus to improve the competitiveness of the regional economy competitiveness need to be developed areas regional economic centers designed with international standards. The readiness of the local government in earnest in organizing institutional development, sharpen regional government policy, strengthening human resources apparatus and society areas, to economic empowerment area in diligence is the key to economic development in areas that have a high competitiveness in the era of economic globalization.

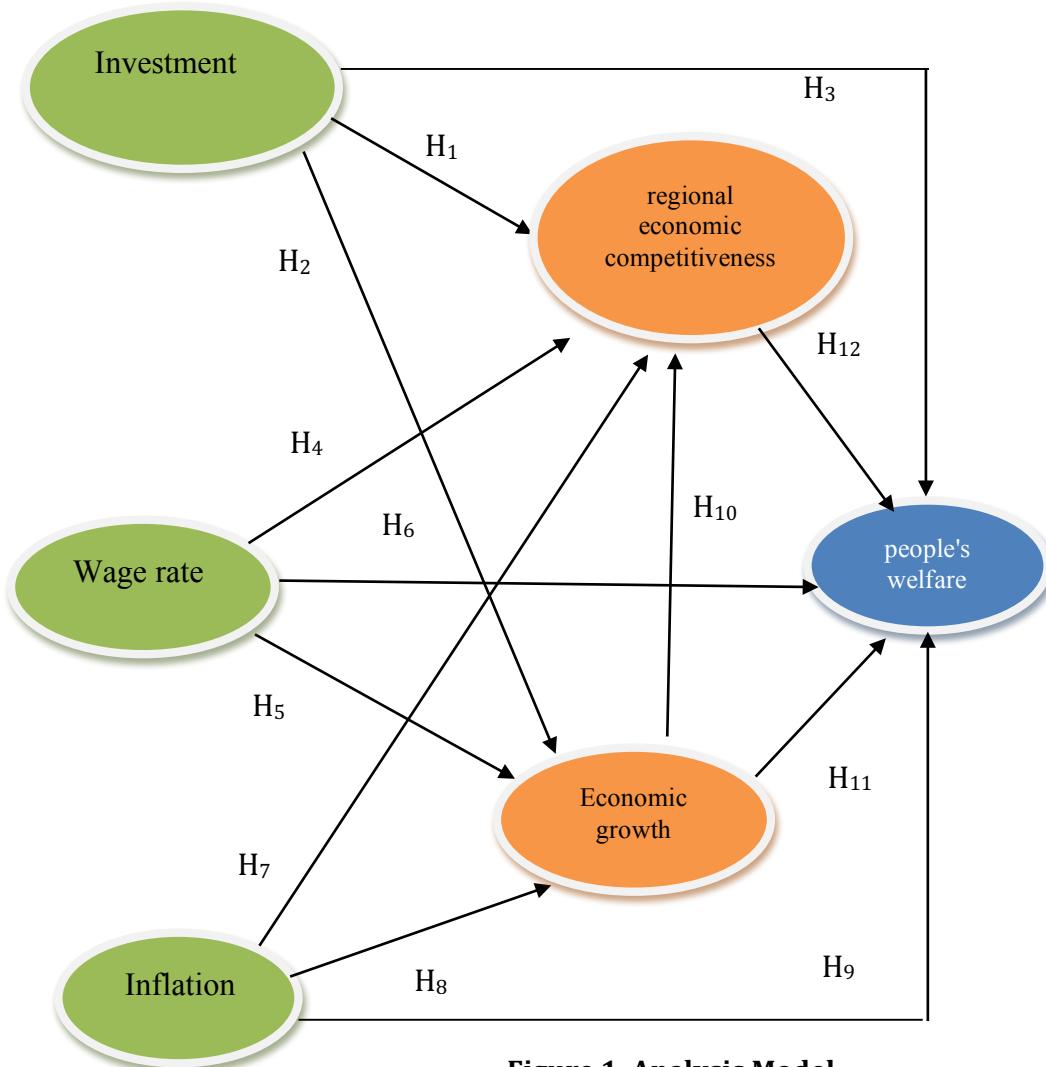
### **Community Welfare**

According to Todaro (2012:234), the welfare of the community is associated positively with per capita income, meaning that the higher the level of the community's per capita income will then increase the kesejahteraannya. But welfare has a negative relationship with poverty, the higher the level of poverty of the community then it tends to lower the welfare of society. Welfare does not only depend on the variables of the economy but also on non economic variables that influence on economic variables. Although the non economic factors affecting economic factors, tetapi non economic factors were not influenced by economic factors. In many cases, the majority of economic experts only takes into account economic variables variavel in the analysis of welfare and non economic variables are considered constant. The human development index (HDI) as one of the index that measures economic social development, health, and education. At the provincial level, the HDI is a composite performance indicators outcomes of some work units and units of work kabupaten province/city.

### **Hypothesis**

1. Investment has a significant effect on regional economic competitiveness.
2. Investment has a significant effect on economic growth.
3. Investment has a significant effect on people's welfare.
4. Wage rate has significant effect on regional economic competitiveness.
5. Wage rates have a significant effect on regional economic growth.
6. Wage rates have a significant effect on people's welfare.
7. Inflation has a significant effect on regional economic competitiveness.
8. Inflation has a significant effect on economic growth.
9. Inflation has a significant effect on people's welfare.
10. Economic growth has a significant effect on regional economic competitiveness.
11. Economic growth has a significant effect on the welfare of local communities.
12. The competitiveness of regional economy has a significant effect on the people's welfare.

## Analysis Model



**Figure 1. Analysis Model**

## RESEARCH METHODS

The population in this study adalah seluruh the county town in the region of Kepulaun Province of Riau. Because relatively few populations i.e. 7 regencies and cities, then in this study using census methods. The census is an examination of the entire Member population (Indriantoro and Supomo, 2012:72). The period of observation data used for 5 years, so a sample research as much as  $5 \times 7 = 35$ . The data used in this research is a combined secondary data coherently shaped and cross data is called data poling. Order data covering the priode 2010-2015, while cross-data covers the whole county town in the province of Riau Islands. This research uses of data analysis in SEM using the *Partial Least Square* (Ghozali, 2011).

## ANALYSIS AND DISCUSSION

### General overview Research Object

Province of Riau Islands is one of the provinces in Indonesia is well seen from the labor, the potential layout of the giografis as well as the number of industry, so when investing in the Riau Islands rise then will improve the welfare of the people. In the year 2010 investment in Riau Islands amounting to Rp. 7.378.949 million and in 2011 amounting to Rp. 11.004.757 million, thus there is an increase of 49.1%. (Source of The BPS. Riau Islands province 2015). An indication of this is the capital of the province of Riau Kepulaun has become the province of potential as a destination for investment.

## Hypothesis testing

Analysis for hypothesis testing is done by looking at the value in the path coefficient (coefficient line) on the structural model, as shown in Table 2.

**Tabel 2. Path Coefficients Structural Model**

No	Path	Estimate	P-Value
1.	Investments (INV) → competitiveness (DS)	0.108	0.008
2.	Investments (INV) → economic growth (PEK)	0.404	0.000
3.	Investments (INV) → community welfare (KM)	0.378	0.000
4.	Wage rate (UPH) → competitiveness (DS)	0.070	0.191
5.	Wage rate (UPH) → economic growth (PEK)	-0.172	0.015
6.	Wage rate (UPH) → community welfare (KM)	0.105	0.009
7.	Inflation (INF) → competitiveness (DS)	0.463	0.000
8.	Inflation (INF) → economic growth (PEK)	0.094	0.120
9.	Inflation (INF) → community welfare (KM)	0.300	0.000
10.	economic growth (PEK) → competitiveness (DS)	0.352	0.000
11.	economic growth (PEK) → community welfare (KM)	0.013	0.436
12.	competitiveness (DS) → community welfare (KM)	0.150	0.030

Hypothesis 1. Investment effect significantly to regional economic growth in the county town of the Riau Islands province. Table 2, show that there were influences from Investment towards regional economic competitiveness in the Regency of Riau Islands Province Town of 0.108, with probability=0.008. This means that with increasing investments will also improve the competitiveness of the regional economy in the county town of the Riau Islands province of 10.8%. This means the hypothesis 1 is accepted.

Hypothesis 2. Investment effect significantly to the competitiveness of the economy in the county town of the Riau Islands province. Table 2, shows that there is an influence of Investment towards economic growth in the county town of the Riau Islands province of 0.404 probability value = 0.000. This means that the increase in investment, will boost economic growth in the county town of the Riau Islands province amounted to 40.4%. This means the hypothesis 2 is accepted

Hypothesis 3. Investment effect significantly to the well-being of the communities in the county town of the Riau Islands province. Table 2, shows that there is an influence of Investment towards the welfare of the communities in the county town of the Riau Islands province of probability value = 0.378 0.000. This means that the increase in investment, will improve the welfare of society in the county town of the Riau Islands province amounted to 37.8%. This means hypothesis 3 is accepted.

Hypothesis 4. Wage rate effect significantly to regional economic growth in the county town of the Riau Islands province. Table 2, shows that there is a wage Level obtainable influence workers against the economic competitiveness of the region in the county town of the Riau Islands province of 0.070 with probability value = 0.000. This means that the level of wages of the workers, have not been able to increase the competitiveness of regional economy in the county town of the province of Riau Islands. This means hypothesis 4 is rejected

Hypothesis 5. Wage rate effect significantly to the competitiveness of the economy in the county town of the Riau Islands provinc. Table 2, show that there were wage Rates against the effects of economic growth in the county town of the Riau Islands province of 0.172 value =

probability of 0.000. This means that in this study, the increase in the wage level can reduce economic growth in the county town of the province of Riau Islands. amounted to 17.2%. This means hypothesis 5 is accepted.

Hypothesis 6. Wage rate effect significantly to the well-being of the communities in the county town of the Riau Islands province. Table 2, show that there were influences from the level of wages against the welfare of society in the county town of the Riau Islands province of 0.105, with probability value of 0.009. Does that mean wage rate effect significantly to the well-being of the communities in the county town of the province of Riau Islands. This means the hypothesis 6 was received.

Hypothesis 7. Inflation effect significantly to regional economic growth in the county town of the Riau Islands province. Table 2, show that there were influences from Inflation against the regional economic competitiveness in the Regency of Riau Islands Province Town of 0.463 probability value = 0.000. This means that the level of Inflation effect significantly to regional economic competitiveness in the county town of the Riau Islands province of 46.3%. This means hypothesis 7 is accepted.

Hypothesis 8. Inflation effect significantly to the competitiveness of the economy in the county town of the Riau Islands province. Table 2, show that there were effects of Inflation towards economic growth in the county town of the Riau Islands province of 0, 094, with a value of 0, 120 CR. That means the inflation effect is not significantly to economic growth in the county town of the province of Riau Islands. This means hypothesis 8 was rejected.

Hypothesis 9. Inflation effect significantly to the well-being of the communities in the county town of the Riau Islands province. Table 2, show that there were influences from Inflation against the well-being of the communities in the county town of the Riau Islands province of 0.300 probability value = 0.000. That means the inflation effect significantly to the well-being of the communities in the county town of the Riau Islands province of 30.0%. This means hypothesis 9 is accepted.

Hypothesis 10. Economic growth effect significantly to regional economic competitiveness in the county town of the Riau Islands province. Table 2, show that there were the influence of economic growth toward regional economic competitiveness in the Regency of Riau Islands Province Town of 0.352 with probability values of 0, 000. This means that the economic growth effect significantly to the competitiveness of the regional economy in the county town of the Riau Islands province of 35.2%. This means hypothesis 10 is accepted.

Hypothesis 11. Economic growth effect significantly to the well-being of the communities in the county town of the Riau Islands province. Table 2, show that there were influences from economic growth against the welfare of the communities in the county town of the Riau Islands province of 0.013 with probability value = 0.436. This means that economic growth does not perpengaruh significantly to the well-being of the communities in the county town of the province of Riau Islands. This means hypothesis 11 is rejected

Hypothesis 12. Regional economic competitiveness effect significantly to the well-being of the communities in the county town of the Riau Islands province. Table 2, show that there were influences from regional economic competitiveness against the well-being of the communities in the county town of the Riau Islands province of 0.150, with significance value = 0.030. This means that regional economic competitiveness effect significantly to the well-being of the communities in the county town of the Riau Islands province of 15.0%. This means hypothesis

12 is accepted.

## SUMMARY

1. Investment has a significant effect on regional economic competitiveness.
2. Investment has a significant effect on economic growth.
3. Investment has a significant effect on people's welfare.
4. Wage rate do not has an insignificant effect on regional economic competitiveness.
5. Wage rates have a significant effect on regional economic growth.
6. Wage rates have a significant effect on people's welfare.
7. Inflation has a significant effect on regional economic competitiveness.
8. Inflation do not has a significant effect on economic growth.
9. Inflation has a significant effect on people's welfare.
10. Economic growth has a significant effect on regional economic competitiveness.
11. Economic growth do not has a significant effect on the welfare of local communities.
12. The competitiveness of regional economy has a significant effect on the people's welfare.

## LIMITATIONS

1. To the County Government of Riau Islands Province City Government should pay more attention to, and improve the level of wages in force currently is so low, given the influence of the level of wages against the regional economic competitiveness in the County Town Province Of Riau Islands. This can be done by always adjusting the minimum salary standards (wage rate) that exist today, taking into account the increase in inflation that occurs every year.
2. To the development of the research To other researchers suggested to further examine the factors that affect investment, wage levels, inflation, regional economic competitiveness, economic growth, the competitiveness of the economy in the county town of the province of Riau Islands. Given the many factors that affect the welfare of the community, which is not only related to the variables already discussed in this study.

## BIBLIOGRAPHY

- Agarwal, HS., 2008. *Modern Micro Economics*. 6th Revised and Enlarged Edition. New Delhi : Konark publiser PUT LTD
- Budiono, 2013. *Introduction To Macro Economics*, Fourth Edition. Yogyakarta: BPFE
- Deliarnov, 2012. Deliarnov, 2012. *The development of economic thought*, third edition. Jakarta: PT Rajagrafindo Persada.
- Ghozali, Imam, 2011, *Statistik Multivariate Dengan SPSS dan PLS*. Semarang: Badan Penerbit Universitas Dipenongan
- Hawalni, R, Hendra, 2002. *Economic Globalization and international economics*, first printing. Jakarta: Indonesia Ghilia.
- Indrianto, Nur and Bambang Suporno, 2012. *Research Methodology for Business and Management Accounting*, Yogyakarta, BPEE
- Irawati, et al, 2012. *The measurement of Regional Competitiveness based on Variables, variable area Economy infrastructure and natural resources as well as Human resource is Variable in the territory of the province of South East Sulawesi*
- Mankiw, N. Gregory, 2007. *Macroeconomics*, 6t Editon, Jakarta: Penerbit Erlannga
- McConnel, R Campbell and Stanley L Brue, 2002. *Economics*, New York : McGraw-Hill Campanies.
- Nanga, Muana, 2015. Macro Economics, theory, policy issues, Jakarta: Raja Grafindo Persada.

- Nasution P, Ade, 2016. *Reading Glasses from Indonesia Batam*, Batam: UNRIKA pers.
- Samuelson, Paul A and William D, Nordhaus, 2005. *Economics*. New York: McGraw-Hill, Inc
- Sukirno, Sadono, 2010. *Macro Economics Modern*, Jakarta: PT Raja Grafindo Persada,
- Taylor, B John, 2004. *Economics*. USA : Houghton Mifflin Campany